UNITED STATES BANKRUPTCY COURT

SOUTHERN DISTRICT OF NEW YORK

Case No. 09-13125-jmp

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In the Matter of:

ION MEDIA NETWORKS INC., ET AL.,

Debtors.

- -x

United States Bankruptcy Court

One Bowling Green

New York, New York

June 23, 2009

10:06 AM

B E F O R E:

HON. JAMES M. PECK

U.S. BANKRUPTCY JUDGE

HEARING re Debtors' Motion for an Order Pursuant to Sections 105(a), 345, 363(b), 363(c) and 364 of the Bankruptcy Code and Bankruptcy Rules 6003 and 6004 Authorizing the Debtors to (A) Continue to Operate the Cash Management System; (B) Honor Certain Prepetition Obligations Related to the Cash Management System; (C) Continue to Invest Excess Funds in the Investment Account on an Interim Basis Notwithstanding Section 345(b) of the Bankruptcy Code; (D) Maintain Existing Business Forms; and (E) Grant Administrative Priority for Intercompany Claims and Perform Under Certain Intercompany Arrangements and Historical Practices.

HEARING re Debtors' Motion For Entry of an Order Determining Adequate Assurance of Payment for Future Utility Services.

HEARING re Debtors' Motion for Entry of an Order Authorizing, But Not Directing, Debtors to (A) Maintain Prepetition Insurance Policies and (B) Enter into New Insurance Policies.

HEARING re Debtors' Application for Entry of an Order Authorizing the Employment and Retention of Kirkland & Ellis LLP as Attorneys for the Debtors and Debtors in Possession Nunc Pro Tunc to the Petition Date.

HEARING re Debtors' Application for Entry of an Order Pursuant to Section 327(e) of the Bankruptcy Code Authorizing and Approving the Retention of Holland & Knight LLP as Corporate Counsel to the Debtors Nunc Pro Tunc to the Petition Date.

HEARING re Debtors' Motion for Entry of an Order Establishing Procedures for Interim Compensation and Reimbursement of Expenses for Professionals.

HEARING re Debtors' Motion for Entry of an Order Authorizing the Retention and Compensation of Certain Professionals Utilized in the Ordinary Course of Business.

HEARING re Debtors' Omnibus Motion for Entry of an Order Authorizing the Rejection of Certain Executory Contracts and Unexpired Leases of Nonresidential Real Property.

HEARING re Debtors' Motion for Entry of (A) an Ex Parte Bridge Order and (B) an Order Pursuant to Section 521 of the Bankruptcy Code and Bankruptcy Rules 1007 and 9006(b) Granting an Extension of Time to File Schedules and Statements.

Transcribed by: Penina Wolicki

A P P E A R A N C E S :

KIRKLAND & ELLIS LLP

Attorneys for Debtors

Citigroup Center

153 East 53rd Street

New York, NY 10022

BY: JONATHAN HENES, ESQ.

JOSHUA A. SUSSBERG, ESQ.

LOWENSTEIN SANDLER PC

Proposed Attorneys for Creditors' Committee

65 Livingston Avenue

Roseland, NJ 07068

BY: SHARON LEVINE, ESQ.

SUZANNE IAZZETTA, ESQ.

UNITED STATES DEPARTMENT OF JUSTICE
      Attorneys for Office of the U.S. Trustee
      33 Whitehall Street
      21st Floor
      New York, NY 10004

BY: SUSAN GOLDEN, ESQ.
      MARYLOU MARTIN, ESQ.

LOEB & LOEB LLP
      345 Park Avenue
      New York, NY 10154

BY: VADIM J. RUBINSTEIN, ESQ.

AKIN GUMP STRAUSS HAUER & FELD LLP
      Attorneys for Ad Hoc First Lien Lender Group
      One Bryant Park
      New York, NY 10036

BY: ALEXIS FREEMAN, ESQ.

TROUTMAN SANDERS LLP
The Chrysler Building
405 Lexington Avenue
New York, NY 10174

BY: HOLLACE T. COHEN, ESQ.

P R O C E E D I N G S

THE COURT: Be seated please.

MR. HENES: Good morning, Your Honor. Jon Henes, Kirkland & Ellis on behalf of Ion. Your Honor, we have a relatively long agenda today, but all uncontested. We have --

THE COURT: That means it's a relatively short agenda.

MR. HENES: Relatively short?

THE COURT: If it's long but uncontested, it's likely short.

MR. HENES: That's right. That would be good. One matter, as you know, is adjourned, which is the DIP. What I'd like to do is just give you a quick update on where we are.

THE COURT: Fine.

MR. HENES: And then my colleague, Mr. Sussberg will get up to handle the agenda. As you know, Your Honor, at the first day hearing we listened very carefully to what you had to say. And I think the lenders, more importantly, listened very carefully to what you had to say.

After that hearing we sat down with the group that was represented by Ropes & Gray and provided them with diligence, and they came back to us with a commitment for a DIP. After receiving that, the group represented by Akin Gump came back with a modified proposal to their DIP. And I believe that they modified their DIP to take into account the concerns that Your Honor had.

So we now have two DIP proposals on the table. We actually have a board meeting today to go through that and to select one, which we will then be filing a supplemental motion so we can put the terms out of the DIP, which will be significantly better than the DIP that was put in front of you on the first day. And then we have the hearing for July 1st.

In terms of the business, the business is -- it's puttering along. I think the 25 million dollar interim DIP was very helpful, because those content deals that we talked about, we're at least having those conversations now. There still is a sense of uncertainty out there, so we are hopeful, on July 1st, we can get the final DIP approved, which we think really will help move things forward.

The final thing that I'll say about the DIP, because I don't want to give away, obviously, too much information. The DIP proposals are relatively close. There's really not that many differences between the two now, which the company looks at as a very good thing. Both, obviously, you have two parties now that want to give the company money. That's always a good position to be in. And there's actually a third group kind of floating around that's at least talked about potentially throwing in a proposal, which we'll see if that occurs or not.

THE COURT: Is there confidentiality as to these proposals, or is there a sharing of information which has resulted in bringing them so close together?

MR. HENES: Neither party wanted us to actually share the proposals in writing. But we have --

THE COURT: With each other?

MR. HENES: -- with each other. But we have talked to both parties, and we have given them a sense of where they are and what they need to do better to get to the point where the debtor would select them as the DIP.

THE COURT: Is there an auction process or not?

MR. HENES: I wouldn't call it an official auction process. We're moving both sides as -- I know that you have experience, and I'm talking to both sides and pushing both sides towards the middle and toward what really will work for the company. But there's not an auction process where we've brought both parties into the same room. I'm not sure that they would get into the same room, so that would be something that would be challenging for the company.

THE COURT: I'm not proposing that you do anything different from what you're doing, I was just trying to explore if this was a process that was being managed with a view toward obtaining the best possible proposal?

MR. HENES: That's exactly where we are headed, Your Honor.

THE COURT: Fine.

MR. HENES: So with that, Your Honor -- one other just update. I believe it was yesterday, it may have been the day before, we found out from the United States Trustee's Office that a creditors' committee has now been appointed. And Ms. Levine from Lowenstein Sandler is here. We spoke last night. And we look forward to working with the creditors' committee moving forward.

The creditors' committee, I believe, has three members right now: M&T Bank, which is actually the trustee for the second lien holders. I believe that their view is that they're completely underwater, and as a result a really unsecured creditor, not a secured creditor. And then CBS and U.S. Bank. U.S. Bank is the trustee for the unsecured note holders.

THE COURT: Let me just ask counsel for the U.S. Trustee whether or not the U.S. Trustee's Office has determined, for purposes of committee composition, that M&T is, in fact, a proper representative of unsecured creditors?

MS. GOLDEN: Good morning, Your Honor. Susan Golden on behalf of the United States Trustee. Given the claim form, when it came in, and our discussions, our preliminary discussions were that they were. However, afterwards we had discussed with counsel and also the U.S. Trustee is taking it under advisement to see whether or not it actually is appropriate. Just for Your Honor's edification, we do have another acceptance form from another unsecured creditor. But the U.S. Trustee is aware of the situation and a decision will be made promptly on the M&T issue.

THE COURT: Fine.

MR. HENES: Your Honor, unless you have any questions for me or would like an update on anything else going on in the case, I don't have anything else, and I would sit down and let Mr. Sussberg --

THE COURT: It looks like Ms. Levine is interested in introducing herself and saying a few words.

MR. HENES: Yes. Thank you, Your Honor.

MS. LEVINE: Good morning, Your Honor. Sharon Levine and Suzanne Iazzetta from Lowenstein Sandler, proposed counsel to the committee. We were retained last night after 6, and this morning is our first appearance in the case. The concern that we have with the abbreviated deadline with regard to the DIP is that although Your Honor -- and we appreciate Your Honor's inquiry at the first day hearing -- from what we've been able to glean from the members of our committee, there's been substantial progress with regard to moving the DIP from basically the driver that would form a plan of reorganization in this case and dictate the outcome of this case on day one, to a process that may be more open.

The bottom line is, because of confidentiality issues and because of our short tenure in the case, we have no idea what these new DIP proposals may turn out to be. We're first retaining a financial advisor, hopefully this afternoon. And we have some real concerns, not only with the fact that we may now see a DIP proposal that doesn't have a plan term sheet, but with some of the terms that seem to be in the DIP credit agreement that may make their way through some of these other DIP proposals.

For example, in the DIP credit agreement there's a cap on content provider contracts which limits the terms of those contracts to three years and four million dollars. And our understanding from some of the content providers is that they're actually in the process of negotiating deals with the debtor right now, that would exceed those limits. And then those contracts, to the extent that they are entered into, would have to then be approved by the lenders.

Our concern here is one of whether or not, in addition to appropriate DIP terms, we have a DIP agreement that allows this business to do what it needs to do to operate in the ordinary course; whether or not the DIP lenders are exercising a little bit too much control; and whether or not the indemnification provisions that seem to be in the RSA, the restructuring agreement as proposed, make their way into the next DIP order, which means that if we have potentially -- and we're not saying that we do, we're brand new -- but if we have potentially the inability of management to do what it needs to do, and the lenders asserted control over the process, and there's issues that come out of that, then we have indemnifications that protect those parties ahead of the unsecured creditors from those outcomes.

So those types of issues are issues that we want to have the opportunity to explore as we move through the process. And then there's the basic issues that Your Honor sees in every DIP. I mean, they're taking liens on avoidance actions, claims on avoidance actions; the interest rate, while LIBOR plus 12 is on the high end of what we've seen recently in a number of cases, that high end seems to be in cases where there are a lot of overseas assets with rough collateral. And given the short term of this DIP and the costs and the fees associated with this DIP, the actual imputed cost of the money seems to be potentially above what even a tough market DIP would be. We would like to talk to our financial advisor about that and see if we can explore those issues.

And in addition to that, Your Honor, we're not sure exactly where the concern is coming from that the debtors are expressing. Because what we're hearing from the content providers, and admittedly it's been a short period of time, is that they're anxiously having these negotiations, but they want to make sure, not that it's a fast DIP, but that it's an appropriate DIP, so that they can enter into the types of contracts that they believe the market requires that they enter into at this time.

So with that, we would ask the Court to continue the July 1 hearing, at least for a short period of time, to give us more than just this brief period of time to get up to speed and to enter into negotiations with the lenders, given that it's likely that we won't see revised DIP terms until sometime late tomorrow. And given the capital structure here and the history here, we would like a little bit of ramp up time. Thank you, Your Honor.

THE COURT: Okay. As to the substance of issues that relate to the DIP, this really isn't the time for that to be addressed. And there's no need for anyone to respond to what may be preemptive merits arguments concerning the DIP. I view this merely as a "we just got here and we need more time" request. The problem with that is my schedule. Unfortunately, I don't have a lot of time in the month of June -- excuse me, and July. June is tight, July is tighter. And I also don't know to what extent the debtor is going to take a position that not having this heard on the 1st is a problem.

The only available time that I have within a reasonable period after the 1st is during the week of July 6, when I was planning not to be here at all. I'm going to Chicago on the 7th for a judicial conference which is run by the FJC, and my flight leaves on Tuesday. In light of the July 4th holiday, I was not planning to be here at all the week of July 6th. So while I'm sensitive to your request, I think you also need to be sensitive to my calendar which is unusually jammed in the month of July, including, as Kirkland & Ellis well knows, a fairly active trial that is scheduled to start on the 20th of July in another Kirkland case.

So while I'm sensitive to your request for time, it seems to me that it's premature to make the request. You'll be getting whatever proposals there are to get as soon as they're available to see them. To the extent that you have a problem in fairly addressing the issues raised in those proposals, you can renew your request for more time. And to the extent that there is availability from a scheduling perspective, after the week of the 6th, which would be during the week of the 13th, that's possible. But candidly, I'm concerned from a case administration perspective, in having a case of this magnitude in limbo from the perspective of DIP financing for such an extended period of time.

So that while I'm interested in providing the committee and its counsel and other representatives as much time as is reasonable to address issues raised by the DIP proposal, which I haven't seen either, I'm also sensitive to the need for the debtor to get the financing that it claims to need so desperately as promptly as possible. So my suggestion is we approach this pragmatically.

If you're able to deal with it and meet the July 1 date, that would be fine. If you're not, despite best efforts, able to address the issues in the DIP and need more time, I suggest that we have a telephone conference if you can't reach agreement, for purposes of discussion and scheduling, recognizing that there aren't a lot of available dates other than the one you already have.

MS. LEVINE: We appreciate that. Thank you, Your Honor.

THE COURT: Okay.

MR. HENES: Thank you, Your Honor.

MR. SUSSBERG: Good morning, Your Honor.

THE COURT: Good morning.

MR. SUSSBERG: Joshua Sussberg from Kirkland & Ellis on behalf of the debtors. Your Honor, I wanted to make note and remind the Court that at the first day hearing we had introduced into evidence the declaration from Brandon Burgess the CEO of the company. Exhibit O to that declaration included a summary of many of the pleadings that we'll be presenting today.

The first item on the agenda, and I'm working off the amended agenda from last night, but it's relatively the same as the prior agenda, is actually the motion for final approval of the debtors' cash management system. As Ms. Levine noted, we spoke with her office last night, and at the request of committee counsel, they would like a brief adjournment of that final order to review it and make sure it appropriately addresses their concerns. We are amenable to that, so long as Your Honor is okay including some time on the previously scheduled date, July 1st at 2 p.m. to deal with the cash management motion.

THE COURT: That's fine. I'm going to be here anyway.

MR. SUSSBERG: Great. Thank you, Your Honor. And just another housekeeping note. The Moelis retention application, which was also on the agenda for today, was noted on the amended agenda that it would be adjourned to address certain concerns that the U.S. Trustee as well as the committee had raised. We intend to work through those, hopefully consensually, over the course of the next week, and present that to Your Honor on July 1st as well.

THE COURT: Fine. With that understanding, there will be a hearing on July 1st at 2 o'clock regardless with happens with regard to the DIP. Hopefully the DIP will be included on that date as well. But so it's clear, it's perfectly available time that's already been reserved for the Ion case, and I expect to be here then.

MR. SUSSBERG: Excellent. Thank you, Your Honor. One other note for the July 1st hearing. The debtors intend to file a motion that we've been working hard on that dovetails with the DIP, and that's a motion to approve omnibus procedures to purchase programming and content, as Ms. Levine alluded to, regarding discussions as between Ion and various of the content providers. We think it will provide a streamlined fashion for the debtors to enter into deals and provide people with notice of those deals so as to maintain confidentiality and allow the business to progress in an ordinary course.

THE COURT: Okay.

MR. SUSSBERG: And we hope to be filing that today or tomorrow on shortened notice. And we appreciate Your Honor entertaining that.

Your Honor, item number 2 on the agenda is the motion seeking to determine adequate assurance of payment for future utility services. This motion was filed on the petition date. It's docket entry number 11. And as a result of the second day hearing timing, we appreciate Your Honor having entered a bridge order to extend us until today when we were able to present this motion.

No formal objections have been received, although I will say that many of my colleagues have been shepherding utility providers who have been requesting additional adequate assurance in accordance with our procedures, even in advance of the hearing today. And we intend to address those in accordance with the procedures, so long as Your Honor entertains the order.

The order is very standard as to adequate assurance of payment. We are proposing to provide a deposit equivalent to two weeks' deposit for each of the utility providers over the course of the twelve-month historical average. It amounts to 566,000 dollars. In addition, the procedures provide an opportunity for utility providers who disagree with our two-week deposit and our ability to pay going forward, to request additional adequate assurance. And so long as Your Honor approves, the debtors will have authority to enter into negotiations to resolve any one-off requests.

With that, Your Honor, we believe the establishment of the procedures set forth in the motion provide adequate assurance of utility service and our ability to pay for such service. And to the extent the utility provider does not object within thirty days from the Court's entry of an order, they'll be deemed to have accepted our procedures.

THE COURT: Does anyone wish to be heard with respect to this? Hearing no response, I approve it.

MR. SUSSBERG: Thank you, Your Honor. I just would like to note for the record a couple of minor changes to the proposed order.

THE COURT: Okay.

MR. SUSSBERG: And if it may please Your Honor, I can hand up a black line.

THE COURT: Please. Thank you. You also rather neatly also gave me the disk. So that was nice --

MR. SUSSBERG: I did. I didn't mean to --

THE COURT: -- that was nice double duty.

MR. SUSSBERG: -- I didn't want to get too far ahead of myself.

THE COURT: Okay.

MR. SUSSBERG: Paragraph 3 of the order and paragraph 1 of the procedures that are attached to the order provide that to the extent certain utilities request additional adequate assurance in the form of deposits, and they ask for us to provide those deposits directly to the utility provider, we've included a proviso that allows us to withhold the portion that would otherwise be in the adequate assurance deposit, so that we're not double paying a deposit.

Paragraph 7 of the order and paragraph 5 of the procedures, clarify that we have the greater of twenty days from the receipt of an adequate assurance additional request and thirty days from the entry of an order approving the motion to resolve any additional requests.

And finally, paragraph 13 of the order carves out a few utilities that have already contacted us. These are the famous players in the utility world that have reached out to us well in advance of the entry of the order, and we're working with them on a one-off basis. With that, I'm happy to answer any questions Your Honor may have.

THE COURT: I guess my only question relates to the carve-out, paragraph 13, and what is contemplated as to this class of excepted utilities?

MR. SUSSBERG: Generally speaking, I think it's standard among the industry for these utilities to request a two-month deposit to be delivered to them directly. And we have successfully negotiated them down significantly. Without divulging any confidences that may be subject to an agreement after the Court enters an order, and subject to sharing those agreements with the U.S. Trustee and the committee and any other parties that are interested in reviewing them, I think we've resolved them amicably.

THE COURT: Okay. Fine. This is approved with the amendments to the order as noted.

MR. SUSSBERG: Thank you, Your Honor. Your Honor, item number 3 on the agenda, another fairly straightforward motion. It's the debtors' motion to maintain existing insurance policies, each of which is listed on Exhibit B to the motion. I will note for the record that we provided notice of the motion to each of the insurance providers listed on exhibit B.

Briefly, Your Honor, we maintain a comprehensive insurance program, providing among other coverage: general liability, auto liability, excess liability, earthquake-related liability. We even maintain broadcasters' liability, as well as D&O liability, fiduciary liability, crime, property and miscellaneous liability.

THE COURT: I'd just ask what's covered by a broadcasters' liability policy?

MR. SUSSBERG: It's funny you ask that, because I figured you would ask the question.

THE COURT: Did you actually figure I would ask that question?

MR. SUSSBERG: I actually did, and I read it very carefully. It is covering any and all transmission of waves via television or the Internet that may result in liability. Very broad. I tried to dive into the details, but that really was what it said.

THE COURT: We're talking Janet Jackson type liability?

MR. SUSSBERG: I think that's right.

THE COURT: Okay.

MR. SUSSBERG: Your Honor, the aggregate amount of premiums payable with respect to all these policies is 3.17 million dollars annually. We believe we are current on all our coverage. And we're simply filing this motion out of an abundance of caution, to the extent that a deductible or any other payment may come due and owing that results from a prepetition liability.

As noted in the motion, there are two insurance brokers that help the company procure their insurance. They are current on all prepetition payments, so nothing is due at this time. To the extent Your Honor has any questions about insurance cover, I'm happy to answer them now.

THE COURT: No. I want you to be covered fully, including for broadcasters' liability.

MR. SUSSBERG: Your Honor --

THE COURT: It's approved.

MR. SUSSBERG: -- thank you. I can pass up an order now or at the end.

THE COURT: Later.

MR. SUSSBERG: Okay. Item number 4 on the agenda, Your Honor, is the application to employ Kirkland & Ellis, nunc pro tunc to May 19th as counsel to the debtors. We filed the application and the declaration of Mr. Henes in support of the application on May 20th. No formal objections were received, although we did receive feedback from the U.S. Trustee, and in response thereto filed a supplemental declaration of Mr. Henes yesterday afternoon.

Briefly, for the record, the supplemental declaration addresses the U.S. Trustee's issues, and we've spoken with the U.S. Trustee's Office about that declaration. And we'd note, in the declaration, that to the extent any issue arises with respect to a current or former client, in connection with these Chapter 11 cases and as identified on Schedule 2 to the original declaration, Kirkland & Ellis will seek, if they don't already have, a waiver to pursue any adverse litigation or matter against that party. And absent such waiver, we will make sure that the company has in place appropriate conflicts counsel.

In addition, the declaration clarified that with respect to passive intermediary investments, which members of the firm may have an interest in, we made clear that Kirkland & Ellis policies mandate that individuals do not invest directly in the securities of the debtors during the pendency of these Chapter 11 cases. We also noted in the supplemental declaration that we will formally screen certain individuals that were otherwise identified in the original declaration, in accordance with our formal screening procedures.

And finally, we noted that to the extent the rates for any of the attorneys or paralegals working on this case rise during the course of the case, we'll file a supplemental declaration and serve that on parties that have filed a 2002 notice of appearance.

Your Honor, I think the application adequately sets forth Kirkland's qualifications; the way in which we will be compensated during the course of this case, which, in accordance with the interim compensation procedures we'll present later today; as well as the services that we will provide to the debtors during the course of these cases. At this point, I'm happy to answer any questions you may have on Kirkland's retention application.

THE COURT: I don't have any questions. I'm just going to ask if the U.S. Trustee is satisfied with the supplemental declaration?

MS. GOLDEN: Yes, Your Honor. Counsel's been very forthcoming, and it was mainly an issue of a little bit of further disclosure and clarification. And Mr. Henes' supplemental declaration is fine with us, and we have no objection to your approving the retention of Kirkland & Ellis.

THE COURT: Fine. The Kirkland retention is approved.

MR. SUSSBERG: Thank you, Your Honor. Your Honor, item number 5 on the agenda is the application to retain Holland & Knight as corporate counsel under 327(e), nunc pro tunc to the petition date. As noted in the application, Holland & Knight has been serving as corporate counsel to the debtors since 1994. So over the course of the past fifteen years, Holland & Knight has gained invaluable institutional knowledge about the inner workings of the debtors, the corporate functions, and various legal matters that relate to the debtors. So it's very important that Holland & Knight plays a key role in these Chapter 11 cases with respect to those corporate matters.

The application and the declaration of David Perry in support of the application was filed on May 20, 2009. No formal objections have been received. As was the case with the Kirkland retention application, the U.S. Trustee expressed certain concerns that they would like to see noted in a supplemental declaration. And we have, in fact, had Holland & Knight file a supplemental declaration to address two points.

The first point, similar to Kirkland & Ellis' supplemental declaration, makes clear that to the extent any current or former clients identified on Schedule 2 become an interested party in these cases and adverse to the debtors, Holland & Knight will attempt to procure a waiver, if they are adverse to such parties, or otherwise make sure that the company has appropriate counsel in place, whether it be Kirkland & Ellis or conflicts counsel. And number two, the U.S. Trustee asked us to make clear in the retention order that Holland & Knight would be retained under Section 327(e) of the Bankruptcy Code. And we have made those changes.

With that, Your Honor, I am happy to answer any questions you may have on Holland & Knight's retention.

THE COURT: I have no questions. And I'm going to give Ms. Golden an opportunity to confirm that she doesn't have any issues either.

MS. GOLDEN: No, Your Honor. The supplemental declaration is fine, and we have no objection to Holland & Knight coming in.

THE COURT: I approve the Holland & Knight retention.

MR. SUSSBERG: Thank you, Your Honor. As mentioned, we'll be bypassing the Moelis retention application. We'll deal with that next week. Agenda item number 7 is the interim compensation procedures motion. This was filed on June 2nd at docket entry 53. No objections have been filed. Another standard motion seeking an orderly, regular process for the allowance of payment of compensation for professional services rendered, reimbursement of expenses incurred by professionals specifically retained in these cases. I also will note that it's consistent with the standing order in this jurisdiction with respect to compensation procedures. I'm happy to walk the Court through the procedures.

THE COURT: That won't be necessary. I'm very familiar with the order. I do want to ask counsel proposed for the creditors' committee if Lowenstein Sandler has had a chance to review this and has any issues?

MS. LEVINE: We don't, Your Honor. We've read the pleadings and spoke with counsel. And the only two issues we had related to cash management and the Moelis retention.

THE COURT: Okay. Fine.

MR. SUSSBERG: I will note, Your Honor, that we'll make a clarification for two things in the order. One, we'll add Lowenstein Sandler specifically, now that they've been officially appointed as counsel to the committee.

THE COURT: Well, they haven't been officially retained, but we'll assume that that's simply a matter of time.

MR. SUSSBERG: Very well. And also, at the request of Ms. Cohen, we will include the agents with respect to notice of interim applications -- not the monthly, but interim applications to the agents under the first and second priority secured indentures.

THE COURT: All right. It's approved as modified.

MR. SUSSBERG: Thank you, Your Honor. Your Honor, item number 8 on the agenda is the motion to retain ordinary course professionals and service providers. This was filed on June 2nd at docket entry 54. No formal objections have been received, although we have worked closely with Ms. Golden and made certain changes at the request of her office.

Very briefly, we're seeking authorization, as is standard in large Chapter 11 cases, to employ certain attorneys and service providers utilized in the ordinary course, that are providing service to the debtors for several years, if not months, in the past, that are not necessarily related to these Chapter 11 cases but nonetheless very important to day-to-day business operations of the company.

Service providers are very broad. It includes public relations, business consultants, financial advisors and the like. At Ms. Golden's request, we've limited ordinary course professionals to attorneys, specifically. So the exhibit to the motion only lists those attorneys that will be considered ordinary course professionals.

Briefly as to the changes in the proposed order. At the request of the U.S. Trustee, we have eliminated the three-month rolling cap which had previously been included in the application, such that it said ordinary course professionals could incur fees and expenses of up to 50,000 dollars on a three-month rolling basis, so it would carry over month to month. We've eliminated that and simply said that it's 50,000 dollars per month, at the U.S. Trustee's request. We have, however, carved out one specific professional, and that is Dow Lohnes PLLC, which is regulatory counsel for the debtors. In an agreement with the U.S. Trustee, the order will provide that Dow Lohnes may incur fees and expenses of up to 100,000 dollars per month, not on a rolling basis.

The order itself notes that service providers will continue to be paid in the ordinary course of business. With that, I'm happy to answer any questions Your Honor may have.

THE COURT: I have no questions. It's approved.

MR. SUSSBERG: Thank you, Your Honor. Your Honor, item number 9 on the agenda is the first omnibus motion of the debtors to reject certain contracts and lease agreements. This motion was filed on June 8th at docket entry 64. No objections have been filed. The affidavit of service that notes that each of the counterparties to the proposed rejected contracts were served with the motion is at docket entry number 70.

Your Honor, briefly, before the petition date, the debtors began the process of reviewing and analyzed their contract and lease obligations in an effort to determine which of those obligations could be shed in such that they provide additional obligations to the debtors going forward, that would be a drain on estate resources. To date, the debtors have identified thirty agreements, each of which are listed on Exhibit B to the motion. These carry ongoing obligations that, as I mentioned, would constitute an unnecessary drain.

The agreements can generally be described in four buckets: There are building lease agreements, where, as expected, the debtors lease certain buildings and office space for the operation of their business; there are tower attachment agreements, pursuant to which the debtors lease broadcasting towers and nearby buildings that house antennas. And I will note, that with respect to the agreements listed on the exhibit attached to the motion, several of these towers are analog towers. And as I think most people are well aware at this point, on June 12th there was a nationwide conversion to digital. So the analog towers are no longer necessary or appropriate for the debtors' ongoing business. And as a result, the debtors determined that they should reject these agreements, and not necessarily incur costs associated with such agreements.

And in addition, the debtors have included fiber services agreements, which receive the right to transmit television broadcast signals over fiber optic transmission lines; and microwave licenses, which are used by the debtors to locate microwave dishes on a particular parcel of property for the purpose of relaying microwave signals. I don't profess to be an expert on fiber optic or microwave signals, but my understanding from the company after reviewing these agreements, is they've since invested and entered into agreements that contemplate newer technology, such that these older agreements are no longer applicable or necessary to business operations. And as a result, they've made their way onto the rejection schedule.

Your Honor, consistent with Section 365 of the Bankruptcy Code, we believe that our business judgment is satisfied, after having reviewed these agreements and considering the ongoing costs and burdens to the company in maintaining these agreements. And as a result, we submit that rejecting the agreements is appropriate and a reflection of the company's sound business judgment. I'm happy to answer any specific questions you may have at this time.

THE COURT: I have no specific questions about this, and don't intend at this point to substitute my business judgment for that of the debtor. But I am interested in knowing whether the committee, given its relatively short time as a fully constituted body of creditors in the case, has any view with respect to this pending motion? Since it's not one of the ones that the committee has reserved on, I'm assuming that there are no issues, but I just want to double check.

MS. LEVINE: Your Honor, candidly, we haven't reviewed each of the leases in detail with a financial advisor. We don't have one yet. But in looking at the buckets, consolidating the space, getting rid of analog and dealing with contracts that, as we understand it, do propose outdated data, our goal is to understand the universe of claims sooner rather than later, and to have that information available to us as we go forward in the case. So we made a decision, perhaps not with the fullest of information we might otherwise have, that we're taking no position on this motion.

THE COURT: Okay. The committee takes no position. We rely upon the debtors' business judgment in running its business, especially as it relates to certain items that I don't even understand, which involves the outmoded technologies. And the motion is approved.

MR. SUSSBERG: Thank you, Your Honor. And we certainly will spend time with the committee and its professionals bringing them up to speed on these various agreements, so that they can certainly understand our business judgment.

THE COURT: Fine.

MR. SUSSBERG: Your Honor, agenda item number 10 is the motion to extend the deadline to file schedules and statements. And I first and foremost would like to thank Your Honor for entering the ex parte bridge order. With the commotion related to the DIP financing and the various efforts of the company professionals to move that process along, the schedules got held up, to say the least. With 117 debtor entities and various claims and items to include in those schedules, it was ambitious to try to get it done in fifteen days, and we unfortunately weren't able to do that.

But we have requested a thirty-day extension, which will take us out to the end of next week. And I believe that we will be in a position to file the schedules and statements early next week and get that behind us.

THE COURT: Good. I'm prepared to approve this. Does the U.S. Trustee or any other party have a problem?

MS. GOLDEN: No, Your Honor.

THE COURT: It's approved.

MR. SUSSBERG: Thank you, Your Honor. The last item on the agenda is listed under the adjourned matters. And Mr. Henes gave you the update earlier today regarding the status of the DIP. But as a housekeeping matter, we would like to present Your Honor with a simple bridge order that extends the current financing, which was to terminate today, through July 1st, the next hearing date. There were a couple of comments that were made by the agent to the proposed order. They are noncontroversial. We've incorporated those comments, but unfortunately, we don't have a clean version of the order down at court. So if Your Honor would not mind, we would propose to send that down later today?

THE COURT: You can submit that later today. I am interested in knowing, if you can provide me with a status report as to where you are with respect to the DIP financing? How much has been drawn down? Are you in any jeopardy other than the fact that we're just talking about some technical extensions of time in respect of being able to meet obligations? In other words, is what you have today sufficient to get you to next week?

MR. SUSSBERG: Your Honor the 25 million was in the form of a term loan, so it's not on a revolving basis. So the company did draw down the 25 million, net of fees, associated with the financing. I think from the company's standpoint, it's extremely important to move forward as quickly as possible, because I think Your Honor mentioned before, being limbo is of no use out there in the world where we're negotiating content and programming deals. And it simply provides an added layer of insulation, if you will, to the content providers, who will simply say to you, well maybe we'll wait another week to see if your situation clarifies.

And deals are being done as we speak, especially with the fall programming coming up so soon. And I think it's very clear from the company's standpoint, that moving forward on an expeditious basis is very, very important to business operations.

THE COURT: I understand that. I don't dispute that. I just wanted to know whether or not there's money left in the bank?

MR. SUSSBERG: We certainly do have money on hand to operate the business.

THE COURT: Fine. And I assume that the money that you have in the bank is sufficient to get you to next week at least?

MR. SUSSBERG: That is fair to say. Yes, Your Honor.

THE COURT: Good. All right. Is there anything more for today?

MR. HENES: No, Your Honor.

THE COURT: I'll see you on July 1. We're adjourned.

(Proceedings concluded at 10:43 a.m.)

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C E R T I F I C A T I O N

I, Penina Wolicki, certify that the foregoing transcript is a true and accurate record of the proceedings.

Penina Wolicki Digitally signed by Penina Wolicki
DN: cn=Penina Wolicki, o, ou,
email=digital1@veritext.com, c=US
Date: 2009.06.24 15:11:11 -04'00'

Penina Wolicki

Veritext LLC
200 Old Country Road
Suite 580
Mineola, NY 11501

Date: June 24, 2009